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Surveys of Consumer Attitudes

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Third Quarter Surveys
July-September 1983

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CONSUMERS REMAIN OPTIMISTIC

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ATTACHMENTS:

July-September 1983 Tables and Charts

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Highlights

** In the third quarter 1983 survey, the Index of Consumer Sentiment was 91.6, just above the 91.5 recorded one quarter earlier, and the highest quarterly reading since the peak of 94.4. was recorded in 1972. Although the overall level of consumer sentiment has remained unchanged during the past six months, small improvements in evaluations of current economic conditions were offset by small declines in expectations.

** Among families with incomes of $20,000 and over, the Index of Consumer Sentiment rose to 101.5 in the third quarter survey, up from 99.3 in the second quarter 1983 survey, and nearly 30 Index-points above the year earlier reading.

** Current business conditions were thought to have improved by 63 percent of all families in the third quarter 1983 surveys. This represents the highest quarterly proportion ever recorded, just above the cyclical peak levels recorded following each recession during the past three decades.

** Continued improvements in the economy were expected by 47 percent of all families in the third quarter, falling below the record 52 percent recorded in the second quarter of 1983, but well ahead of the 34 percent recorded one year earlier. Overall, recent improvements in business conditions have led 60 percent of all families to expect good times financially in the economy as a whole during the year ahead.

** Interest rates were expected to increase during the year ahead by 44 percent of all families in the third quarter 1983 surveys, nearly twice the 23 percent recorded one quarter earlier.

** Consumer attitudes toward buying conditions for houses, vehicles, and household durables each remained at nearly record favorable levels in the third quarter 1983 surveys. Continued evidence of heightened interest rate sensitivity was found in the third quarter data: House buying attitudes declined by a small amount due to less favorable perceptions of mortgage interest rates.

** Consumers reported an increased readiness to draw on savings or to incur new debt in order to finance major new purchases in the third quarter 1983 surveys. The overall financial situation of American families has improved during the past year, with the third quarter survey recording fewer references to income declines and more frequent reports of income increases.

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Consumer attitudes and expectations established a new cyclical peak in the third quarter survey. Widespread optimism about prospects for personal finances as well as for the economy as a whole was recorded. Rising concern with interest rates began to affect house buying attitudes, but had little influence on buying attitudes toward cars and large household durables in the third quarter survey. Overall, buying attitudes remain at record high levels, and point toward a continued recovery in consumer sales.

Pace of Recovery
Expected to Moderate

Among all families, 63 percent reported that overall business conditions had improved during the past year, the highest proportion ever recorded in a quarterly survey. The proportion of families that reported improved business conditions was just 14 percent at the close of 1982, and the proportion nearly doubled in each of the first two quarters of 1983 (from 14 to 27 to 59 percent), with only a small additional increase in the third quarter 1983 survey (63 percent). Consumers remained very optimistic about the future course of the economy, but the rate of expected improvement has also slowed. Among all families, 47 percent expected business conditions to improve during the year ahead, below the 52 percent record level recorded in the second quarter, but well above the 34 percent recorded one year earlier. Just 9 percent of all families expected a worsening economy, up from 7 percent one quarter earlier, but below the 22 percent recorded one year earlier.

News heard of favorable economic developments was reported somewhat less frequently in the third quarter 1983 surveys (69 percent) than one quarter earlier (80 percent), but substantially more than the 29 percent recorded one year earlier. Reports of lower interest rates and easier credit conditions fell to 9 percent in the third quarter surveys, from 16 percent one quarter earlier. The sharp increase in favorable reports of economic developments during early 1983 involved increases in employment. References to increased employment rose from 6 percent in the third quarter of 1982 to 29 percent in the second quarter of 1983, but fell slightly to 27 percent in the third quarter surveys. Reports of lower interest rates and easier credit conditions fell to 9 percent in the third quarter surveys, from 16 percent one quarter earlier. Twice as many families expected unemployment to decline as to increase during the year ahead in the third quarter 1983 surveys (39 versus

16 percent), largely unchanged from one quarter earlier, but nearly the reverse of the negative balance recorded one year earlier (17 versus 46 percent).

The improvement in unemployment expectations during early 1983, and their subsequent maintenance at favorable levels, has been the primary factor behind the improved business outlook. Among all families, 60 percent expected good times financially in the economy as a whole during the next 12 months, just below the 61 percent recorded in the second quarter surveys, but substantially above the 27 percent recorded one year earlier. Longer term business expectations have also improved during the past year, but to a lesser extent. Among all families, 38 percent expected good times financially during the next five years in the economy as a whole, just below the 39 percent recorded in the second quarter, and above the 24 percent recorded one year earlier.

Confidence in government economic policies to reduce inflation and unemployment improved in the third quarter 1983 surveys. Among all families, 27 percent rated government economic policies favorably, up from 21 percent in the second quarter, and 18 percent one year earlier. Unfavorable evaluations were less frequent, held by 22 percent of all families in the third quarter 1983 surveys, down from 22 percent in the second quarter and 33 percent one year earlier.

Higher Interest Rates Expected

The expected moderation in the pace of recovery also reflects rising concern with interest rates. Increases in interest rates were expected during the year ahead by 44 percent of all households in the third quarter 1983 surveys, about twice the 20 to 23 percent recorded in each of the prior four quarterly surveys. Declines in interest rates were expected by only 19

percent of all households in the third quarter 1983 surveys, down from 31 percent one quarter earlier, and 40 percent one year earlier. This growing concern has left interest rate expectations less favorable than at any other time during the preceding two years.

Rising Interest Rates Halt Further Improvement in Buying Attitudes

Rising mortgage interest rates have caused attitudes toward market conditions for houses to recede slightly from the record favorable levels recorded in the second quarter 1983 survey. Among all families in the third quarter 1983 survey, 58 percent thought that buying conditions for houses were favorable, down from the peak of 64 percent in the second quarter surveys. The proportion of respondents that mentioned the availability of lower mortgage rates fell to 47 percent in the third quarter, from the peak of 57 percent in the second quarter, while complaints about high mortgage rates rose to 28 percent in the third quarter surveys, up from 23 percent in the second quarter--marking the first quarterly rise in references to high mortgage rates in more than a year. Despite the small increases in mortgage rates, overall attitudes toward market conditions for houses have remained at favorable levels. On balance, more families continued to cite lower rather than higher mortgage rates in the third quarter survey, even if by a narrower margin. In addition, families continued to mention the availability of lower housing prices more frequently than high housing prices in the third quarter 1983 survey (19 versus 16 percent).

In contrast to house buying attitudes, attitudes toward market conditions for cars have remained largely unchanged at very favorable levels. Among all families, 64 percent thought that buying conditions for automobiles were favorable in the third quarter 1983 surveys, just below the 65 percent

recorded in the second quarter, and substantially above the 37 percent recorded one year earlier. The proportion of families that mentioned the availability of lower interest rates on vehicle loans was 33 percent in the third quarter 1983 surveys, down from 40 percent one quarter earlier, but substantially above the 7 percent recorded one year earlier. In addition, the third quarter 1983 survey recorded the lowest number of consumers to complain of high car prices in more than five years: 18 percent, down from 30 percent one year earlier. Rather, the appeal of price discounts and rebates was mentioned by 26 percent of all families in the third quarter 1983 surveys, unchanged from one quarter and one year earlier.

Improved Personal Finances Support Spending Plans

In the third quarter 1983 surveys, consumers reported an increased readiness to draw on savings or incur new debt in order to finance major new purchases (see Tables A and B). Among all families, 27 percent reported that they were not reluctant to incur new debt, more than twice the 12 percent recorded one year earlier, and the highest level recorded during the past three years. The use of accumulated savings to make major new purchases was viewed with favor by 36 percent of all families, up from 25 percent one year earlier, and 30 percent three years earlier.

The financial situation of American families improved substantially during the past year. In the second and third quarter 1983 surveys, more families reported that their financial situation had improved rather than worsened during the past year in sharp contrast to the prior three years when unfavorable evaluations predominated. The recent improvement in personal finances was particularly evident among families with incomes of $20,000 or more. By the third quarter of 1983, twice as many high income families

reported that their financial situation had improved rather than worsened (48 versus 23 percent), while just one year earlier as many high income families reported improvement as deterioration (36 versus 35 percent). A major reason for this recent improvement involved more frequent reports of income increases. Among high income families, 43 percent reported that their family income had increased during the past year, up from 33 percent one year earlier.

While the improvement in the financial situation of households since 1982 has been substantial, the 1982 level itself already incorporated improvements from the record 1980 lowpoint. The underlying reason for this longer term improvement in evaluations of personal finances has been due to the declining rate of inflation. In the third quarter 1983 surveys, just 16 percent of all families mentioned the adverse impact of inflation on family finances, down from 28 percent one year earlier. The frequency of references to rising prices has declined steadily since 44 percent was recorded at the start of 1981.

Consumers remained optimistic about future changes in their personal financial situation in the third quarter 1983 surveys. Among all families, 36 percent expected improvement in their personal financial situation during the year ahead, down somewhat from the peak of 40 percent in the second quarter, and above the 31 percent recorded one year earlier. Just 11 percent of all families in the third quarter 1983 Survey expected a worsening financial situation, up from 8 percent in the second quarter, but below the 18 percent recorded one year earlier.

Compared with one year earlier, income expectations were largely unchanged in the third quarter 1983 survey, although somewhat more concentrated in the 1-5% range. Among all families approximately the same

proportion expected their income to remain unchanged (27 percent) or to decline (13 percent) in the third quarter surveys as one year earlier. The proportion of families that expected income increases of 6% or more was 31 percent in the third quarter 1983 surveys, down from 35 percent one year earlier, while the proportion of families that expected increases of 1-5% was 22 percent in the third quarter surveys, up from 16 percent one year earlier.

On average, consumers expected an annual rate of inflation of 4.9% in the third quarter 1983 survey, up from 4.6% one quarter earlier, but below the 5.9% recorded one year earlier. The steep three year decline in price expectations, coupled with the relative maintenance of nominal income expectations, has resulted in greatly improved income expectations. When the expected rate of inflation reached the all time peak of 11.9% in the first quarter of 1980, only 29 percent of all families expected their income to increase by 10% or more. By the third quarter of 1983, when the expected inflation rate was 4.9%, a full 42 percent expected income increases of 5% or more.

Summary Outlook

Consumer attitudes and expectations established a new cyclical peak in the third quarter survey. Widespread optimism about prospects for personal finances as well as for the economy as a whole was recorded. Rising concern with interest rates began to affect house buying attitudes, but had little influence on buying attitudes toward cars and large household durables in the third quarter survey. Overall, buying attitudes remain at record high levels, and point toward a continued recovery in consumer sales.

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The third quarter 1983 survey was conducted between June 26 and September 24, 1983 and included 2,057 completed interviews.

TABLE A

OPINIONS ABOUT WHETHER NOW IS A
GOOD TIME TO USE CREDIT FOR MAJOR PURCHASES

	Third Quarter			
	1980	1981	1982	1983
Ok to use credit; not especially reluctant	15%	13%	12%	27%
Pro-con	1	1	1	1
Not OK to use credit; especially reluctant	83	83	85	71
DK, NA	1	3	2	1
Total	100%	100%	100%	100%
Cases	1793	2071	2083	2057

The question was: "If there were something big that you wanted to buy, do you think that now is a time when it would be O.K. for you to buy it on credit, or is now a time when you would be especially reluctant to take on new debt?"

TABLE B

OPINIONS ABOUT WHETHER NOW IS A
GOOD TIME TO USE SAVINGS FOR MAJOR PURCHASES

(Percentage of families with savings)

	Third Quarter			
	1980	1981	1982	1983
OK to use savings; not especially reluctant	30%	29%	25%	36%
Pro-con	1	1	1	*
Not OK to use savings; especially reluctant	60	68	72	62
DK, NA	9	2	2	2
Total	100%	100%	100%	100%
Cases	616	2044	1906	1868

*Less than 0.5 percent.

The question was: "If there were a major purchase that you wanted to make, do you think that now is a time when it would be O.K. to use some of your savings or is now a time when you would be especially reluctant to use some of your savings?"

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SURVEYS OF CONSUMER ATTITUDES

MONITORING ECONOMIC CHANGE PROGRAM

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TABLES AND CHARTS

SEPTEMBER 1983

The September 1983 survey is the 180th in a series of surveys of consumer attitudes conducted by the Survey Research Center at The University of Michigan. Initiated in 1946, these periodic surveys provide regular assessments of consumer attitudes and expectations, and are used to evaluate economic trends and prospects. The surveys are designed to explore why changes in consumer attitudes and expectations occur, and how these changes influence consumer spending and saving decisions.

Two charts highlight recent changes and historical patterns for most questions. Both recent change charts and historical series charts include quarterly data before 1978, and 3 month averages starting in January of 1978. See the explanatory charts at the end of this book for a detailed description.

All surveys are subject to sampling error because not all members of the population are interviewed. Most results on the total sample for this monthly survey will differ by no more than 4 percentage points in either direction from what would have been obtained by using the same methods on the entire population. See the back of this book for sampling error information.

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